

2017

Comprehensive Annual Financial Report

For the Years Ended December 31, 2017 and 2016

Prepared by: The Finance Department of the Texas Municipal Retirement System

The "Capital" Cities of Texas



Texas Municipal Retirement System

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Introductory

Brenham



Tyler



cuero



Awards



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Texas Municipal Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

December 31, 2016

Christopher P. Monill

Executive Director/CEO



Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2017

Presented to

Texas Municipal Retirement System

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator



June 12, 2018

To: The Participants and Employers of the Texas Municipal Retirement System
and the Readers of the *Comprehensive Annual Financial Report*

We are pleased to present the *Comprehensive Annual Financial Report* (CAFR) of the Texas Municipal Retirement System (TMRS®, or the System) for the year ended December 31, 2017. We hope you will find this report informative.

The CAFR is prepared by TMRS staff under the direction of the Board of Trustees. Management of TMRS assumes full responsibility for both the accuracy of the data and the completeness and fairness of its presentation, based on a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatement. This report complies with generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB).

The TMRS Act requires that independent auditors perform an annual audit on the financial statements contained in this report. The Board selected KPMG LLP to perform the audit for the 2017 fiscal year. For information regarding the scope of the audit, please see the Independent Auditors' Report in the Financial Section. Management's Discussion and Analysis (MD&A) is found in the Financial Section immediately after the Independent Auditors' Report and provides an analysis of condensed financial information for the current and prior fiscal years. MD&A should be read in conjunction with this transmittal letter.

About TMRS

TMRS is a statewide agent multiple-employer public employee retirement system created by law in 1947 to provide retirement, disability, and death benefits to employees of participating cities. As a hybrid defined benefit plan, TMRS members contribute at a designated rate toward their own retirement benefit. At retirement, the member's account balance (including credited interest) plus employer matching contributions is used to calculate the member's retirement benefit. As of December 31, 2017, TMRS had 883 member cities, 110,208 employee accounts, and 62,776 retirement accounts. TMRS paid \$1.25 billion in benefits in 2017, up from \$1.16 billion in 2016.

Activity in 2017

In March 2018, the TMRS Board approved an approximate 13.05% interest credit to city accounts as of December 31, 2017, based on account balances as of January 1, 2017; member accounts were credited with 5%. The System's smoothing policy and deferred gains resulted in an actuarial return of 7.11%.

TMRS continued to focus efforts on expanding the straight-through-processing capabilities for members and cities, through the implementation of TMRSDirect®. Members using MyTMRS® (a tool that provides secure online access to personal data) are now able to add or change beneficiaries online and to choose

Letter of Transmittal

Continued

whether to receive regular communications from TMRS electronically or by mail. TMRS also added multi-factor authentication to MyTMRS to improve the security and confidentiality of information. Cities on the City Portal (an application that provides secure online access to member and city data) can now upload forms and other documents directly and securely through the City Portal. City administrators enrolled more than 3,500 members electronically by the end of 2017. Members registered for MyTMRS can now make address changes and access account information. Approximately 99,000 TMRS members and retirees have registered for MyTMRS accounts, and more than 730 cities are using the City Portal for plan administration. In addition to the expansion of TMRSDirect, TMRS put a new emphasis on creating instructional videos for members and exploring other means of electronic communication. A strong demand for member and retirement services continues. Eleven new cities joined the System in 2017. Member Services staff answered over 70,000 phone calls requesting assistance and over 8,000 emails. Staff processed 3,550 new retirements in 2017, representing a 2.7% increase over the previous year.

Because the number of cities using the City Portal and the number of members using MyTMRS expanded during 2017, there was a large increase in retirement estimate requests: estimates requested via MyTMRS grew to over 225,000, and those requested through the City Portal on behalf of members totaled approximately 7,000. By comparison, estimates run by Member Services representatives for all purposes, not exclusively at members' request, totaled only 14,140.

TMRS did not seek legislation in the 2017 Regular Session of the Texas Legislature but assisted the City of University Park in preparation of a bill that passed and became law. Under the terms of HB 3056, the city was able to close its local plan for fire fighters and enroll those fire fighters subsequently hired into TMRS. The Session was generally notable for the concerted efforts of officials to improve the funded status of large retirement systems in Houston and Dallas. Although those systems are not part of TMRS, the debate created opportunities for TMRS to explain why our policies and plan design help ensure a secure and sustainable system.

Staff provided a high level of support to cities in examining contribution rates and plan change requests. In support of this function and member education, the Travel Team made 274 trips to cities and visited with approximately 25,000 members and officials. The Travel Team answered more than 8,700 emails and provided individual counseling for over 1,000 TMRS members. For group training sessions, the Communications department prepared and presented 13 Regional Pre-Retirement Seminars, 5 Executive Workshops, 4 two-day City Correspondent Certification Courses plus several one-day courses, and held a successful Annual Training Seminar in Grapevine. 2017 also featured the return of the Retiree Luncheon, with a presentation to the San Antonio Retirees' Association.

Investments

TMRS administered \$28.9 billion in assets as of December 31, 2017. The Investments Department at TMRS follows these Total Portfolio Performance Objectives:

- Achieve a Total Rate of Return, over rolling five-year periods, consistent with the assumed long-term rate of return on TMRS assets adopted by the board (currently 6.75%)
- Exceed an appropriate benchmark reflective of asset class participation over rolling five-year periods (i.e., Policy Index)

Diversification has been, and continues to be, implemented through a deliberate multi-year process. The current asset allocation strategy is expected to meet the long-term total return objective of 6.75%, consistent with the actuarial interest rate assumption for the plan.

As described in the Investment Section of this CAFR, the overall one-year gross rate of return for 2017 on

the investment portfolio was 14.27%. The Investment Section of this CAFR contains a detailed summary of investment operations during 2017, including performance of different asset classes and diversification progress.

Funding and Actuarial Overview

As required by statute, TMRS obtains an annual actuarial valuation for each participating municipality. The actuarial results for the System as a whole are presented in the Actuarial Section of this CAFR. After the completion of the annual actuarial valuation, TMRS provides a Rate Letter to each participating municipality, reconciling the city's rate from the prior valuation to the current valuation and explaining the components of the reconciling items. TMRS makes these Rate Letters available on our website.

The TMRS Board of Trustees has been working with the actuarial firm of Gabriel, Roeder, Smith & Company (GRS) since June 2008, and GRS completed its tenth actuarial valuation for the System for the fiscal year ended December 31, 2017. As certified by GRS, the calculations for funding are prepared in accordance with Actuarial Standards of Practice, GASB principles, and state law.

Each city has its own retirement program within the options offered by the plan. Each city's plan objective is to accumulate sufficient assets to pay benefits when they become due and to finance its long-term benefits through a contribution rate that is annually determined by the consulting actuary.

A member city's retirement contribution rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated to the year immediately following the valuation date; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits if adopted by a city — such as Updated Service Credit (USC) and COLAs — as well as future increases in salary.

Conservative features of TMRS' plan include the 6.75% investment return assumption, and that each city's unfunded liability is amortized over a closed period of 25 or 30 years. As of December 31, 2017, TMRS as a whole was 87.4% funded, an increase from 86.3% at December 31, 2016. Historical information relating to progress in meeting the actuarial funding objective is presented in the Schedule of Funding Progress, included in the Actuarial Section of this CAFR. TMRS has adopted an Actuarial Funding Policy, which is posted on the TMRS website.

Professional Services

The Board of Trustees appoints consultants to perform services that are essential to the effective and efficient operation of TMRS. The Supplemental Schedules of the Financial Section contain information on professional services.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to TMRS for its *Comprehensive Annual Financial Report for the Year Ended December 31, 2016*. This was the 30th consecutive year that TMRS has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

Letter of Transmittal

Continued

A Certificate of Achievement is valid for a period of one year only. TMRS believes that our current *Comprehensive Annual Financial Report* continues to meet the Certificate of Achievement Program's requirements, and is submitting it to the GFOA to determine its eligibility for another certificate.

TMRS also received the Public Pension Standards 2017 Award from the Public Pension Coordinating Council (PPCC) in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.

This CAFR is made available to all participating TMRS cities; their combined cooperation contributes significantly to the success of TMRS.

We would like to express our gratitude to the staff, advisors, and all who have contributed to the preparation of this report and to the continued success of the System.

Respectfully submitted,



Jim Parrish

Chair, Board of Trustees



David Gavia

Executive Director

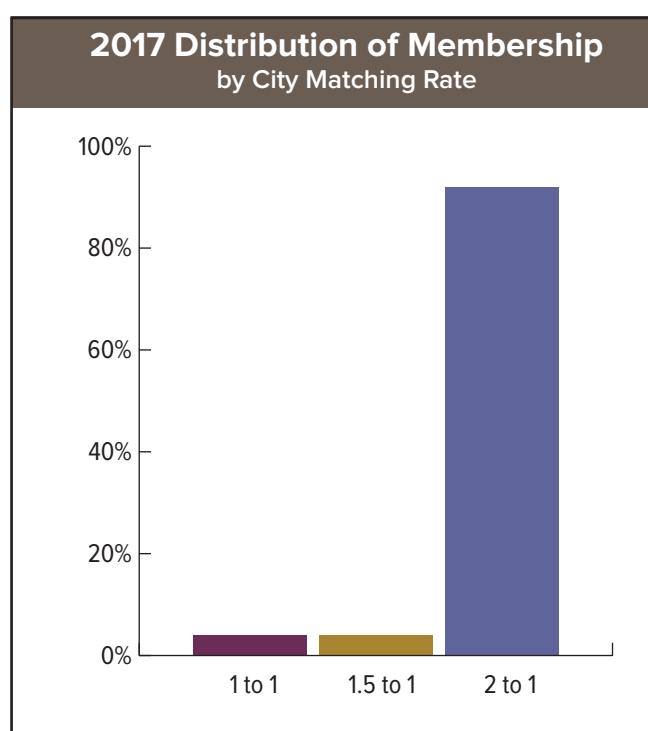
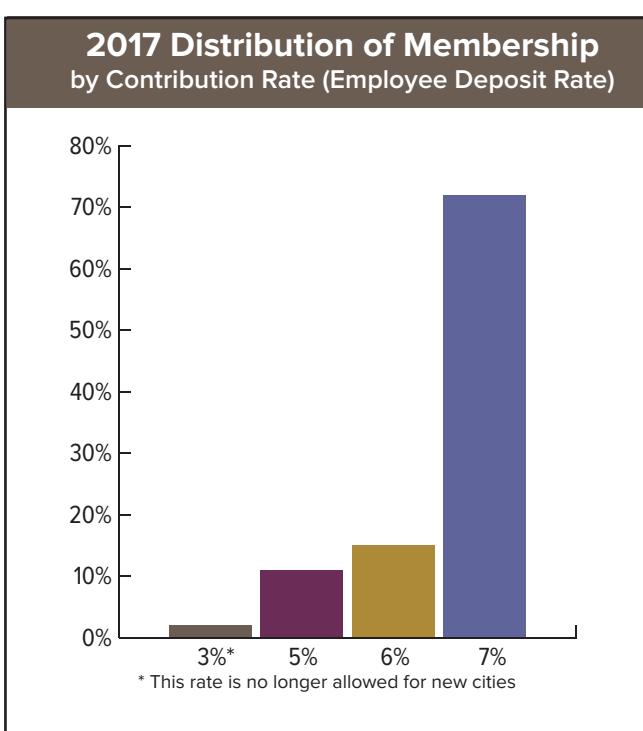


Rhonda H. Covarrubias

Director of Finance

	2015	2016	2017
Employer Contributions	\$751.7 mil	\$768.3 mil	\$838.4 mil
Employee Contributions	\$376.1 mil	\$389.9 mil	\$410.5 mil
Retirement Benefits	\$1.1 bil	\$1.2 bil	\$1.3 bil
Terminated Member Refunds	\$57.0 mil	\$54.2 mil	\$59.4 mil
Administrative Expenses	\$21.3 mil	\$18.1 mil	\$18.1 mil
Investment Expenses*	\$36.8 mil	\$61.2 mil	\$86.7 mil
Member Municipalities	866	872	883
New Member Municipalities	7	6	11
Retired Member Accounts	56,481	59,611	62,776
Active Plan Member Accounts	106,894	108,891	110,208
Inactive Plan Member Accounts	50,707	53,721	57,369
New Retirements	3,302	3,456	3,550
New Employee Members	15,476	15,094	15,771
Refunded Members	7,145	6,971	7,337
Investments, at Fair Value	\$24.3 bil	\$25.8 bil	\$28.9 bil
Annual Total Return, Gross	0.34%	7.42%	14.27%
Interest Rate on Employee Deposits	5.0%	5.0%	5.0%
Interest Rate on Municipality Deposits	0.06%	6.73%	13.05%
Cities that:			
Adopted Updated Service Credit (USC)	595	596	596
Reduced percentage or rescinded USC	2	1	4
Adopted Annuity Increases to Retirees (AI)	471	475	472
Reduced or Rescinded AI	3	-	2
Increased Employee Contribution Rate	13	11	10
Increased City Matching Ratio	17	6	13
Reduced City Matching Ratio	-	-	1
Adopted Supplemental Death Benefits	-	-	-
Rescinded Supplemental Death Benefits	1	-	-
Adopted 5-Year Vesting	1	2	1
Adopted 20-Year, Any Age Retirement	4	10	8

*Investment expenses do not include management and incentive fees that are paid directly out of the operations of the private investment funds.



TMRS Board of Trustees



Jim Parrish, 2017 Chair

Deputy City Manager – Administrative Services
Plano
Term expires: February 1, 2023



David Landis

City Manager
Perryton
Term expires: February 1, 2021



Bill Philibert, 2017 Vice Chair

Director of Human Resources and Risk Management
Deer Park
Term expires: February 1, 2019



Julie Oakley, CPA

Assistant City Manager
Lakeway
Term expires: February 1, 2019



Jim Jeffers

City Manager
Nacogdoches
Term expires: February 1, 2021



Roel "Roy" Rodriguez, PE

City Manager
McAllen
Term expires: February 1, 2017

The TMRS Act provides that the administration of TMRS is entrusted to a six-member Board of Trustees, appointed by the Governor with the advice and consent of the Senate. Three Trustees are “Executive Trustees” (Landis, Philibert, and Rodriguez) who are the chief executive officer, chief finance officer, or other officer, executive, or department head of a participating municipality. Three Trustees are “Employee Trustees” (Jeffers, Oakley, and Parrish) who are employees of a participating municipality. Per the Texas Constitution, Trustees continue to perform the duties of their office until a successor has been duly qualified. On February 8, 2018, Governor Greg Abbott appointed Jesús A. Garza, City Manager of Kingsville, to the Board of Trustees, replacing Trustee Roy Rodriguez. Mr. Rodriguez was appointed to the TMRS Board of Trustees in 2005 and served as Board Chair in 2008 and 2013. TMRS thanks Mr. Rodriguez for his years of dedicated service.

TMRS Executive Director



David Gavia

The TMRS Advisory Committee on Benefit Design ("Advisory Committee") is appointed by the TMRS Board of Trustees and serves at the pleasure of the Board. The Advisory Committee provides valuable assistance to the Board in considering benefit changes and improvements to the System, and acts as a voice for member, retiree, and city issues.

The Advisory Committee is a 19-member body composed of nine "Individual Representatives" representing TMRS members, retirees, and elected officials; and ten members representing associations and groups with an interest in the TMRS program, called "Group Representatives." Group Representatives are chosen by their respective associations and approved by the Board. The following members were on the Committee as of December 31, 2017.

Individual Representatives

- Michael Dane, Assistant City Manager/Chief Financial Officer, San Angelo
- Bryan Langley, Assistant City Manager/Chief Financial Officer, Denton
- Julie Masters, Mayor, Dickinson
- Charles Windwehen, TMRS Retiree

Note: Five individual representative positions were vacant as of December 31, 2017.

Group Representatives

- Alex Cramer, Arlington Professional Fire Fighters
- Bonita Hall, Texas Municipal Human Resources Association
- Kevin Lawrence, Texas Municipal Police Association
- David Riggs, Texas State Association of Fire Fighters
- J.J. Rocha, Texas Municipal League
- Greg Shipley, Combined Law Enforcement Associations of Texas
- Casey Srader, Government Finance Officers Association of Texas
- Lori Steward, City of San Antonio
- Greg Vick, Texas City Management Association
- Vacant, Service Employees International Union, San Antonio

Keith Dagen, Government Finance Officers Association of Texas, served on the Advisory Committee during calendar year 2017 but was not a member at year-end.

Effective January 1, 2018, the Charter for the Advisory Committee on Benefit Design was adopted, changing the number of Advisory Committee members to ten — three Individual Members and seven Group Members. Group Members are chosen from the following seven organizations:

- Combined Law Enforcement Associations of Texas
- Government Finance Officers Association of Texas
- Texas City Management Association
- Texas Municipal Human Resources Association
- Texas Municipal League
- Texas Municipal Police Association
- Texas State Association of Firefighters

TMRS Professional Advisors

Actuary

Gabriel, Roeder, Smith & Company

Custodian

State Street Bank and Trust Company

Depository Bank

JPMorgan Chase Bank

Economic Advisor

A. Gary Shilling & Co.

Fiduciary Counsel

Robert D. Klausner

Independent Auditor

KPMG LLP

Investment Consultants

Albourne America LLC

Courtland Partners Ltd.

RVK

StepStone Group LP

Medical Board

Ace H. Alsup III, M.D.

William J. Deaton, M.D.

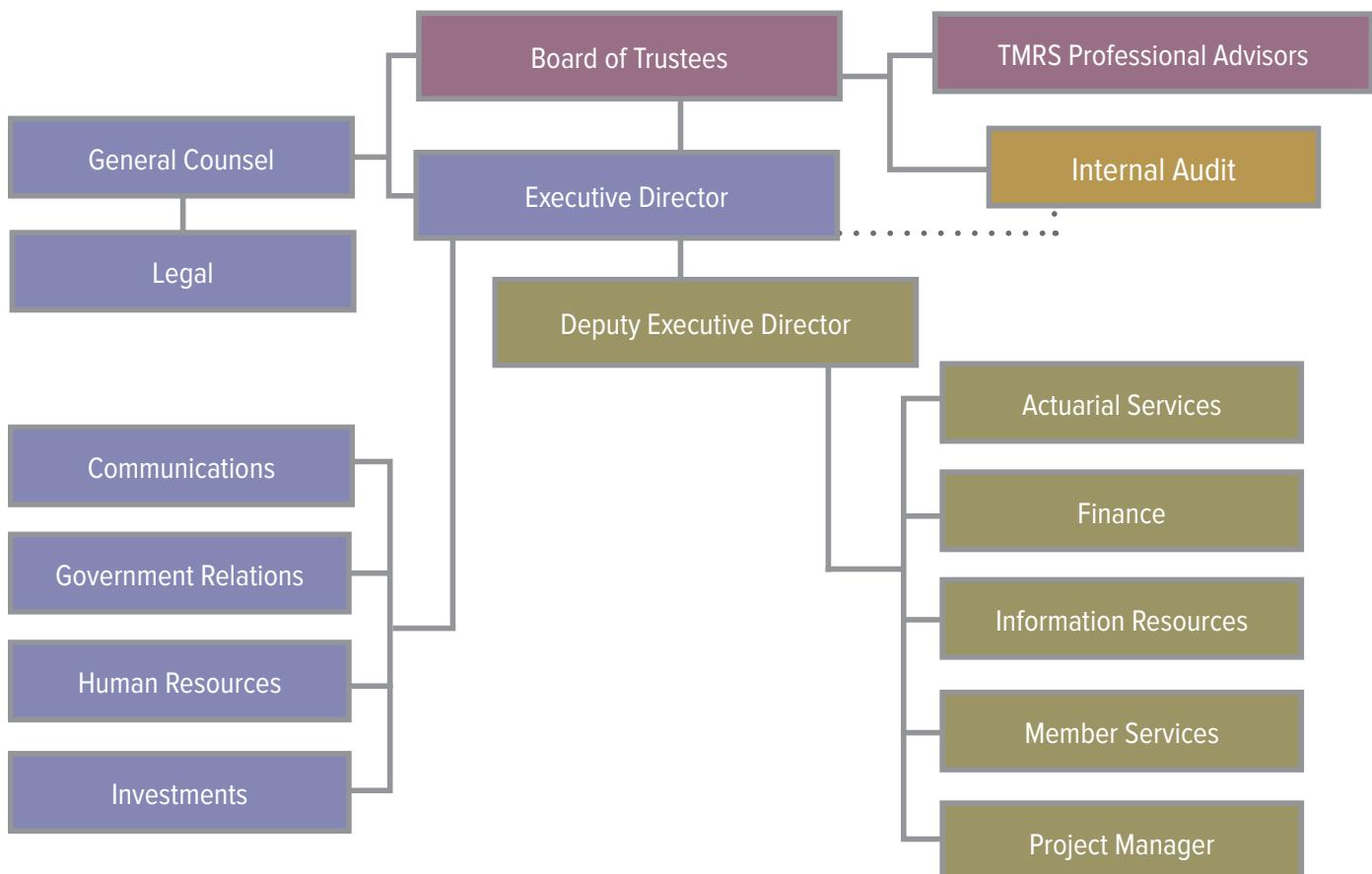
John A. Genung, M.D.

William P. Taylor, M.D.

Note:

A schedule of investment management fees, by asset class, is provided in the Investment Section of this report.

TMRS Administrative Organization



Executive/Administrative

David Gavia, Executive Director
Eric Davis, Deputy Executive Director
Leslee Hardy, Director of Actuarial Services
Leslie Ritter, Director of Human Resources
Sandra Vice, Director of Internal Audit
Dan Wattles, Director of Governmental Relations
Michael Dominkowitz, Facilities Technician
Andrea Focht-Williams, Senior Internal Auditor
Karen Jackson, Executive Assistant
Kenneth Oliver, Actuarial Analyst
Jesse Pittman, Senior Project Manager
LaShelle Ruiz, Administrative Assistant
Adrianne Strong, Human Resources Generalist
Stacy White, Administrative Assistant

Communications

Bill Wallace, Director of Communications
Natalie Garza, Communications Analyst
Donna Neal, Senior Technology Design Specialist
Elizabeth Stone, Technology Design Specialist
Melanie Thomas, Process & Content Management Specialist

Travel Team/City Services

Colin Davidson, Regional Manager II, City Services
Shannon Lucero, Regional Manager II, City Services
Anthony Mills, Senior Regional Manager, City Services
Lorraine Moreno, Regional Manager II, City Services
David Rodriguez, Senior Regional Manager, City Services
Sean Thompson, Regional Manager II, City Services

Finance

Rhonda Covarrubias, Director of Finance
Josette Madry, Accounting Operations Supervisor
Candace Nolte, Controller
Nadia Ali, Accounting Specialist
Sherry Chapman, Investment Accountant
Diedre Hayden, Investment Accountant
Paula Nguyen, Investment Accountant
Danielle Whitaker, Accountant

Information Resources

Scott Willrich, Director of Information Resources
Eric Obermier, Assistant Director of Information Resources

Network Operations

Brian Farrar, Network Operations Manager
Chris Gillis, Senior Computer Support Specialist
Oscar Guzman, Network Security Analyst
Bryan Meche, Network/Systems Administrator
Nick Pappada, Network/Systems Administrator
Joseph Roberts, Network/Systems Administrator
Shaun Truchard, Computer Support Specialist

Software Development

Pete Krnavek, Information Systems Manager
Martin Burke, Business Process Analyst
Ming Cheung, Senior Software Developer
Blanca DaCosta-Cruz, Quality Assurance Analyst
David Himawan, Database Administrator/Developer
Monica Kache, Systems Analyst
Steve Li, Database Administrator/Developer
Steven Lohmeyer, Senior Systems Analyst
Daniel Mata, Senior Systems Analyst
Gretchen Meyer, Senior Systems Analyst
Tin-Sze Poon, Senior Software Developer
Kevin Wang, Senior Software Architect

Records

Ricardo Zavala, Records Supervisor
Chyrlinne Crockett, Records Analyst
Sequoia Haywood, Records Specialist
Michael Korenstein, Records Specialist
Irene Page, Records Specialist

Investments

T.J. Carlson, Chief Investment Officer
Marc Leavitt, Director of Absolute Return
Tom Masthay, Director of Real Assets
Kristin Qualls, Director of Equities
Chris Schelling, Director of Private Equity
Dimitry Shishkoff, Director of Risk Management
Jason Weiner, Director of Fixed Income
Sally Case, Investment Operations Manager
Ryan Connor, Investment Data Analyst
Kurt Cressotti, Compliance Officer
Debbie Farahmandi, Administrative Assistant
Germán Gaymer, Investment Analyst I
Susan Jaques, Investment Operations Performance Analyst
Melissa Jenkins, Investment Quantitative Analyst II
Carol Leung, Senior Investment Analyst
Cindy Morse, Investment Support Analyst
Kevin Notaro, Senior Investment Analyst
Eddie Schultz, Assistant Director of Real Assets
Peter Teneriello, Investment Analyst I
Geldon Villahu, Investment Operations Specialist

Legal

Christine Sweeney, General Counsel
Madison Jechow, Assistant General Counsel II
Michelle Mellon-Werch, Assistant General Counsel III
Nicholas O'Keefe, Lead Investment Attorney
Michael Schaff, Assistant General Counsel III
Tish Root, Legal Assistant

Member Services

Debbie Muñoz, Director of Member Services
Jennifer Andrews, Member Services Manager
Chad Nichols, Member Services Manager
Vikki Vasquez, Member Services Manager
Jay Adams, Member Services Analyst II
Faith Davis, Member Services Analyst I
Debbie Davila, Member Services Analyst II
Vanessa De La Cruz, Member Services Analyst I
David Eastwood, Member Services Analyst II
Veronica Escobedo, Member Services Analyst II
Nicole Garrod, Member Services Analyst I
Ida Gomez, Member Services Analyst II
Rhonda Green, Member Services Analyst II
April Hernandez, Member Services Analyst Lead
Karin Hicks, Member Services Analyst II
Peter Jeske, Business Process Analyst
Patricia King, Administrative Aide
James Lee, Member Services Analyst I
Maryann Malave-Jaini, Member Services Analyst Lead
Pamela Morgan, Support Services Analyst
Richard Ramos, Member Services Analyst II
Jade Rangel, Member Services Analyst II
Shelley Ransom, Member Services Analyst Lead
Cris Rodriguez-Horn, Support Services Analyst
Anna Silva, Member Services Analyst II
Wade Slaton, Member Services Analyst II
Leslie Smith, Support Services Analyst
Tricia Solis, Support Services Analyst
Caroline Touchet, Member Services Analyst II

Summary of Plan Provisions

Purpose

The Texas Municipal Retirement System (TMRS, or the System) is an entity created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code, as a retirement system for municipal employees in the State of Texas. TMRS is a public trust fund governed by a Board of Trustees with a professional staff responsible for administering the System in accordance with the TMRS Act. The System bears a fiduciary obligation to its members and their beneficiaries.

Administration

The TMRS Act entrusts the administration of TMRS to a six-member Board of Trustees, appointed by the Governor with the advice and consent of the Senate. Three trustees are Executive Trustees, who must be a chief executive officer, chief finance officer, or other officer, executive, or department head of a participating municipality. Three trustees are Employee Trustees, who must be employees of a participating municipality.

The TMRS Act requires regular Board meetings in March, June, September, and December of each year. The Board of Trustees employs actuarial, legal, medical, and other experts for the efficient administration of the System. The Board also forms committees to serve in an advisory role as needed.

The Board appoints an Executive Director to manage TMRS under its supervision and direction.

Membership

Cities choose to participate in TMRS. When a city joins TMRS, all of its eligible employees become members of the System. An employee in a position that normally requires at least 1,000 hours of work in a year, as determined by the city, is an eligible employee and is required to be a member of TMRS.

A person who leaves employment with all TMRS cities may withdraw all member deposits and interest from TMRS and cancel service credit with the System. A member may not refund his/her TMRS account unless there is a “bona fide” separation, and the employing city must certify that the employee has terminated employment.

Service Credit

TMRS members earn a month of service credit for each month they are employed in an eligible position by a participating TMRS city and make the required contribution to the System. Members may also receive Prior Service Credit for periods of city employment before the employing city joined TMRS. Because TMRS is a statewide retirement system, service credit may be a combination of service with several member cities. Service credit may also include Military Service Credit, credit for previously refunded TMRS service that has been purchased, and other types of service credit allowed under the TMRS Act.

A participating municipality can also grant, by ordinance, Restricted Prior Service Credit to an employee for service performed as a full-time paid employee of:

- Any public authority or agency created by the United States
- Any state or territory of the U.S.
- Any political subdivision of any state in the U.S.
- Any public agency or authority created by a state or territory of the U.S.
- A Texas institution of higher education, if employment was as a commissioned law enforcement officer serving as a college campus security employee

Summary of Plan Provisions

Continued

Restricted Prior Service Credit also can be granted for credit previously forfeited under one of the following systems:

- Texas Municipal Retirement System
- Teacher Retirement System of Texas
- Employees Retirement System of Texas
- Texas County and District Retirement System
- Judicial Retirement System of Texas
- City of Austin Employees Retirement System

This restricted credit may only be used to satisfy length-of-service requirements for vesting and retirement eligibility, and has no monetary value under TMRS.

Member Contributions

TMRS member cities designate, by ordinance, the rate of member contributions for their employees. This rate is 5%, 6%, or 7% of an employee's gross compensation. Three cities have a 3% rate, no longer available to cities under the TMRS Act. Compensation for retirement contribution purposes includes overtime pay, car allowances, uniform allowances, sick leave, vacation pay, and other payments if they are taxable to the employee.

All member contributions since 1984 are tax-deferred under the Internal Revenue Code, pursuant to Sections 401(a) and 414(h)(2). The member contribution rate may be increased by ordinance. However, the member contribution rate may only be reduced if the members in the city, by a 2/3 vote, consent to a reduction, and the city, by ordinance, provides for the reduction.

Interest is credited to member accounts annually on December 31 at a 5% rate, based on the balance in the account on January 1 of that year. In the year of retirement, interest will be prorated for the months of service in that year.

Vesting and Retirement Eligibility

TMRS members vest after either 5 or 10 years of service, based on their city's plan. If a vested member leaves covered employment before reaching retirement eligibility, the member may leave his or her deposits with TMRS, earn interest on the deposits, and, upon reaching age 60, apply for and receive a monthly retirement payment.

A member becomes eligible for service retirement based on various combinations of age and service, depending on which provisions have been adopted by the employing municipality, including:

- Age 60 with 5 years of service
- Age 60 with 10 years of service
- Any age with 20 years of service
- Any age with 25 years of service

Before a city adopts the 20-year, any-age provision, the System must prepare an actuarial study to determine the provision's effect on the city's contribution rate, and the city must conduct a public hearing on the adoption.

Effective January 1, 2002, TMRS law was changed to give cities the option to choose 5-year vesting. Cities that did not opt out of that vesting provision before December 31, 2001, automatically changed from 10-year to 5-year vesting. Cities that chose to retain 10-year vesting may change to 5-year vesting at any time.

Summary of Plan Provisions

Continued

City Contributions

Upon an employee's retirement, the employing city matches the accumulated employee contributions plus interest earned. Each city chooses a matching ratio: 1 to 1 (100%); 1.5 to 1 (150%); or 2 to 1 (200%). This match is funded with monthly contributions by the participating municipality at an annual, actuarially determined rate. A municipality may elect to increase or reduce its matching ratio effective January 1 of a calendar year.

Updated Service Credit

Member cities, at their option, may elect to adopt Updated Service Credit, either annually or on an annually repeating basis, effective January 1 of a calendar year. Updated Service Credit improves retirement benefits by using a member's average monthly salary over a recent three-year period to recalculate the member's retirement credit as if the member had always earned that salary and made deposits to the System, matched by the city, on the basis of that average monthly salary. Updated Service Credit also takes into account any changes in the city's TMRS plan provisions that have been adopted, such as an increase in the member contribution rate or the city's matching ratio. If there is a difference between the recalculated amount and the actual account balances, a percentage (50%, 75%, or 100%) of this difference is granted to the employee, funded by the participating municipality, as the Updated Service Credit. A member must have at least 36 months of service credit as of the study date in the adopting city before becoming eligible to receive this credit. Interest on Updated Service Credit is prorated in the year of retirement.

Retirement Payment Options

After applying for retirement, a TMRS member may choose one of seven optional monthly benefit payments. The member makes this choice before receipt of the first benefit payment, and the choice is irrevocable after the date the first payment becomes due. All options pay a monthly annuity for the life of the retiree. The options include:

- A benefit for the retiree's lifetime only ("Retiree Life Only" option)
- Three guaranteed-term benefits that pay a benefit for the lifetime of the member and to a beneficiary for the balance of 5, 10, or 15 years if the member dies before the term is reached ("Guaranteed Term" options)
- Three options that pay a lifetime benefit to the member and, upon the member's death, a survivor lifetime benefit equal to 50%, 75%, or 100% of the member's benefit ("Survivor Lifetime" options)

As a minimum benefit, TMRS guarantees that an amount equal to at least the member's contributions and interest will be returned, either through payment of a monthly benefit or through a lump-sum refund.

Each of the three survivor lifetime retirement options includes a "pop-up" feature. The "pop-up" feature provides that if the designated beneficiary dies before the retiree, the retiree's benefit will "pop up" to the Retiree Life Only amount. Retirees who marry or remarry after retirement and who meet specific conditions also have a one-time option to change from a Retiree Life Only benefit to one that provides a survivor benefit.

Members who are eligible for service retirement may choose to receive a Partial Lump Sum Distribution, a portion of the member's deposits and interest in cash, at the time of retirement. The Partial Lump Sum Distribution is equal to 12, 24, or 36 times the amount of the Retiree Life Only monthly benefit, but cannot exceed 75% of the member's deposits and interest. The remaining member deposits are combined with the city's funds to pay a lifetime benefit under the selected retirement option.

The Partial Lump Sum Distribution may be chosen with any of the retirement options and is paid in a lump sum with the first retirement payment. This amount may be subject to federal income tax and an additional 10% IRS tax penalty if not rolled over into a qualified plan.

Summary of Plan Provisions

Continued

Section 415(b) of the Internal Revenue Code limits the amount of an annual benefit that may be paid by a pension plan's trust to a retiree. This provision is known as the Section 415 limit, which is set by Congress and can be periodically adjusted by the IRS. Any portion of a retiree's annual benefit that exceeds the Section 415 limit cannot be paid from the TMRS trust fund. However, Internal Revenue Code Section 415(m) allows pension plans to create a separate fund, known as a qualified governmental excess benefit arrangement, to pay the benefits above the Section 415 limit. Accordingly, the TMRS Act established such an arrangement, which is referred to as the "Full Benefit Arrangement." Additional details are made available to affected retirees if they will reach the Section 415 limit in any given year.

Annuity Increases (COLAs)

A member city may elect to increase the annuities of its retirees (grant a cost-of-living adjustment, or COLA), either annually or on an annually repeating basis, effective January 1 of a calendar year. For cities that adopted annuity increases since January 1, 2000, the adjustment is either 30%, 50%, or 70% of the increase (if any) in the Consumer Price Index – All Urban Consumers (CPI-U) between the December preceding the member's retirement date and the December 13 months before the effective date of the increase, applied to the original monthly annuity.

Survivor Benefits

If a member dies before vesting, the member's designated beneficiary is eligible to receive a lump-sum refund of the member's deposits and interest. For a vested member, a beneficiary who is the member's spouse may select a monthly benefit payable immediately; withdraw the member's deposits and interest in a lump sum; or leave the member's deposits with TMRS, where they will earn interest until the date the member would have reached age 60, and then the beneficiary may receive a lifetime benefit. A beneficiary who is not the member's spouse may select a monthly benefit payable immediately or withdraw the member's deposits and interest in a lump sum.

Disability Retirement

All active TMRS cities have adopted an Occupational Disability Retirement benefit. If a member is judged by the TMRS Medical Board to be disabled to the extent that the member cannot perform his or her occupation, and the disability is likely to be permanent, the member may retire with a lifetime benefit based on the total reserves as of the effective date of retirement. The Occupational Disability annuity will be reduced if the combined total of the Occupational Disability annuity and any wages earned exceeds the member's average monthly compensation for the highest 12 consecutive months during the three calendar years immediately before the year of retirement (indexed to the CPI-U). As the minimum disability benefit, the member's deposits and interest are guaranteed to be returned, either through payment of the monthly benefit, or upon termination of the annuity through a lump-sum refund.

Supplemental Death Benefits

Member cities may elect, by ordinance, to provide Supplemental Death Benefits for active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary, calculated based on the employee's actual earnings on which TMRS deposits are made, for the 12-month period preceding the month of death. The death benefit amount for retirees is \$7,500. This benefit is paid in addition to any other TMRS benefits the beneficiary might be entitled to receive. If an individual has multiple retirements, his/her beneficiary will receive only one Supplemental Death Benefit; the last employing city with this provision pays the benefit.

Summary of Plan Provisions

Continued

Buyback of Service Credit

When a member terminates employment and chooses to take a refund of his or her deposits and interest, the member forfeits all service credit. If the member is reemployed by a TMRS member city, and if the employing city adopts the buyback provision by ordinance, the member may repay the amount of the refund plus a 5% per year withdrawal charge, in a lump sum, to reinstate the previously forfeited credit. A member must have 24 consecutive months of service with the reemploying city, and must be an employee of that city on the date the buyback ordinance is adopted to be eligible to buy back service credit.

Military Service Credit

Members who leave employment with a TMRS city, serve in the military, and then return to city employment may establish credit for the time they spend in the military, up to 60 months. Members who meet the requirements of the federal Uniformed Services Employment and Reemployment Rights Act (USERRA) may make member contributions to TMRS as though they had been employed by the city for the period of their military service.

In cities that have adopted Military Service Credit, members who are not eligible for USERRA credit, or who choose not to make contributions, may establish service credit for up to 60 months of military time. A member must have five years of TMRS service credit to establish non-USERRA Military Service Credit.

Members with five years of TMRS service credit who were employed on December 31, 2003, by a city that had previously adopted Military Service Credit, may choose to purchase this credit at a cost of \$15 per month of credit sought (purchase amount would increase the member's account balance), or may use the no-cost time-only provision. ■

This discussion is an informal presentation of the TMRS Act. If any specific questions of fact or law should arise, the statutes will govern.

Financial

Elgin



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Hutto

